

Kellogg's

ANNUAL REPORT 1958



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the BEST to you
each morning!



Board of Directors

S. B. ANGOOD	E. W. MORRIS	R. E. PRITCHARD
G. A. CROSS	H. F. MUNTZ	M. M. RAYMER
E. L. HARDING	R. P. OLMSTEAD	L. C. ROLL
E. M. LEAVER	E. O. ORCHARD	A. E. UDELL
	R. S. POOLE	

Officers

L. C. ROLL	<i>President and General Manager</i>
J. F. HURLEY	<i>Assistant to the President</i>
E. M. LEAVER	<i>Vice President—Marketing</i>
E. O. ORCHARD	<i>Vice-President—Finance</i>
M. M. RAYMER	<i>Vice-President—Development</i>
R. S. POOLE	<i>Vice-President—Production</i>
E. L. HARDING	<i>Vice-President, General Counsel and Secretary</i>
H. F. MUNTZ	<i>Vice-President—International Marketing</i>
R. P. OLMSTEAD	<i>Vice-President—Advertising</i>
A. E. UDELL	<i>Vice-President—Purchasing</i>
P. D. CUSTER	<i>Vice-President—Industrial Relations</i>
R. S. REDMON	<i>Vice-President—Engineering</i>
J. J. THOMPSON	<i>Vice President—Food Research</i>
S. R. SANDBERG	<i>Treasurer and Assistant Secretary</i>
S. B. ANGOOD	<i>Comptroller</i>



Concannon, Dillon, Snook and Morton	<i>General Attorneys</i>
Price Waterhouse & Co.	<i>Auditors</i>
Harris Trust & Savings Bank, Chicago, Illinois	<i>Transfer Agent</i>
Continental Illinois National Bank and Trust Co. of Chicago . .	<i>Registrar</i>

KELLOGG COMPANY

BATTLE CREEK, MICHIGAN

March 2, 1959

To Our Shareholders:

On October 20, 1958, the Board of Directors recommended that the number of authorized shares of Kellogg Common Stock be increased from 4,500,000 to 9,000,000 shares. The Board's recommendation was presented to the shareholders and approved by vote on November 17, 1958. The Board effected the stock split by declaring a 100% stock distribution; that is, one share of Common Stock for each share of Common Stock held was made payable on December 30, 1958, to shareholders of record on November 28, 1958. This report is based on 8,875,770 shares of Common Stock outstanding at the close of business on December 31, 1958.

Along with steady increases in sales and earnings, it is a pleasure to report the completion of another year of progress and extensive planning.

Consolidated net sales totaling \$219,997,523 were 3% higher than they were in 1957. Consolidated net earnings rose 9% over the previous year to a total of \$18,593,489. Net earnings, after deducting Preferred Dividends, amounted to \$2.04 per share of Common Stock, as compared to \$1.88 in 1957.

Dividends paid during 1958 on both Common and Preferred Stock totaled \$9,321,943, which is an increase of \$1,115,923 over 1957. In addition to four quarterly dividends of 17½¢, we paid a year-end dividend of 30¢ on December 15, making the cash dividends on the Common Stock \$1.00 per share.

On February 16, 1959, the Board declared a quarterly dividend of 25¢ per share of Common Stock payable March 16, 1959. We expect to continue our policy of paying in the area of 50% of our net earnings in dividends, using the balance for increased working capital and the expansion of our business. During the past five years, \$43,989,152 has been reinvested in new plants and plant improvements. Preferred and Common Stock cash dividends for the same period totaled \$37,742,780 or 49% of net earnings.

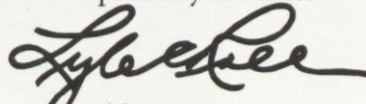
Our most important project during 1958 was the construction of our fifteenth plant. Seventeen acres for the site of the plant were purchased in Memphis, Tennessee on September 4, 1957. Construction was begun last Spring, and our first carload of cereals was shipped from the plant on January 6, 1959. The building and installation of equipment were completed in record time, thanks to the outstanding efforts of our engineering, development, purchasing, and production teams. Our Memphis Plant is staffed with very capable people and I know they will do everything in their power to hasten distribution to our good customers in the South.

Two new products—Kellogg's Corn Flake Crumbs and Kellogg's Cocoa Krispies—were successfully introduced in the United States during 1958. In Great Britain, we launched Kellogg's Sugar Smacks and Kellogg's Variety. Currently, Sugar Smacks is also being marketed in Canada. Every new Kellogg product is backed with years of research and long periods of market testing. Our research people are never satisfied. Their experience and ability, coupled with their imagination and curiosity, combine to assure us of future product developments and constant improvements in existing products, packaging, and processing methods.

The Company is fortunate in having many well-trained people. We have an unusually promising group of upcoming executives and are giving them the kind of assignments that will multiply the value of their future services to the Company. Each of the management teams in our world-wide organization is making good progress with its personnel development and plant expansion programs.

The growth trends reflected by the per capita consumption of cereals and the rate at which population is increasing in all areas where Kellogg Cereals are sold, give us every reason to anticipate substantial gains in consumer acceptance. I look to the future with continued confidence and have great faith in the people associated with Kellogg's.

Respectfully submitted



President

KELLOGG

AND SUBSIDIARIES

Consolidated Balance Sheet—

CURRENT ASSETS:

	1958	1957
CASH	\$ 15,687,439	\$ 15,589,345
UNITED STATES GOVERNMENT SECURITIES, at approximate cost and market	14,000,000	20,098,375
ACCOUNTS RECEIVABLE, less allowance of \$138,787 and \$130,185 for doubtful accounts	7,283,896	5,782,237
INVENTORIES AT LOWER OF COST (first-in; first-out) OR MARKET	19,643,006	18,816,162
ADVERTISING MATERIALS AND PREPAID EXPENSES	3,940,036	2,816,659
TOTAL CURRENT ASSETS	<u>\$ 60,554,377</u>	<u>\$ 63,102,778</u>

PROPERTIES, PLANT AND EQUIPMENT, at cost:

LAND	\$ 1,077,897	\$ 814,347
BUILDINGS	22,428,223	18,780,229
MACHINERY AND EQUIPMENT	55,583,129	44,501,261
CONSTRUCTION IN PROGRESS	3,373,895	2,546,128
	<u>\$ 82,463,144</u>	<u>\$ 66,641,965</u>
LESS ACCUMULATED DEPRECIATION	29,029,504	26,115,875
	<u>\$ 53,433,640</u>	<u>\$ 40,526,090</u>

PATENTS, TRADE-MARKS AND GOODWILL

1	1
<u>\$113,988,018</u>	<u>\$103,628,869</u>

NOTES TO FINANCIAL STATEMENTS

1. Assets and liabilities, except properties, of the wholly-owned subsidiary companies in Canada, England, Australia, South Africa and Mexico are included in the consolidated balance sheet at the approximate rates of exchange prevailing at December 31, 1958 and 1957. Income and expenses, except depreciation, are included at the approximate average rates during the year. Properties and depreciation are included at exchange rates related to dates of acquisitions. Adjustments resulting from the translation of foreign currency amounts into United States currency are included in the statement of income. Substantially all of the earnings of the foreign subsidiaries for the two years have been received by the parent company in dividends.

2. The 3½% Cumulative Preferred Stock is entitled to the benefit of a purchase fund which requires the company to set apart out of net income, after deducting dividends on the preferred stock, each year an amount of cash sufficient to purchase 3,750 shares of preferred stock at prices varying from \$102 in 1958 to \$100 a share after 1975. Any amount in the purchase fund not so expended in any year shall revert to the corporation. In lieu of setting apart cash for any purchase fund installment the company may apply shares of preferred stock purchased, at the maximum current price per share, as the equivalent of cash. Preferred shares may be redeemed at prices varying from \$103 in 1959 to \$100 a share in 1985. So long as any of the preferred stock is outstanding no cash dividends shall be declared or paid on the common stock which would reduce consolidated surplus (capital and earned) below \$10,000,000. In 1958, 3,750 shares of preferred stock purchased in prior years at a cost of \$367,163 were retired in compliance with the purchase fund requirements (\$7,837 excess of par over cost added to other capital).

3. The term loan for \$1,500,000 consists of 3¼% serial notes maturing \$500,000 per annum from 1959 to 1961 inclusive. The loan agreement provides that so long as any of the notes are outstanding the company will not pay or declare any cash dividends or make any other distributions on the common stock which would reduce consolidated surplus (capital and earned) of the company and its wholly-owned domestic subsidiary below

COMPANY

RY COMPANIES

December 31, 1958 and 1957

CURRENT LIABILITIES:

	1958	1957
LOANS PAYABLE—due within one year	\$ 561,600	\$ 567,200
ACCOUNTS PAYABLE—trade	9,396,218	6,842,014
MISCELLANEOUS ACCOUNTS PAYABLE AND ACCRUED EXPENSES	3,457,646	4,272,426
TAXES OTHER THAN INCOME TAXES	1,241,117	930,067
ESTIMATED UNITED STATES AND FOREIGN TAXES ON INCOME	15,234,987	15,992,897
TOTAL CURRENT LIABILITIES	\$ 29,891,568	\$ 28,604,604

TERM LOAN—due after one year	1,000,000	1,500,000
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CAPITAL AND RETAINED EARNINGS:

3½% CUMULATIVE PREFERRED STOCK OF \$100 PAR VALUE—

Authorized and issued—

141,763 (1958) and 145,513 (1957) shares	\$ 14,176,300	\$ 14,551,300
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COMMON STOCK OF \$.50 PAR VALUE—

Authorized 9,000,000 shares; issued 8,875,770 (1958)

and 4,421,996 (1957) shares	4,437,885	2,210,998
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OTHER CAPITAL	2,897,833	2,449,897
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RETAINED EARNINGS USED IN THE BUSINESS	62,500,707	\$ 55,445,524
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	\$ 84,012,725	\$ 74,657,719
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COST OF PREFERRED STOCK HELD IN TREASURY—10,074 (1958)

and 11,996 (1957) shares	916,275	1,133,454
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	\$ 83,096,450	\$ 73,524,265
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	<u>\$113,988,018</u>	<u>\$103,628,869</u>
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IAL STATEMENTS

\$6,000,000. The agreement also provides that the company and its wholly-owned domestic subsidiary must maintain net current assets of at least \$10,000,000 and their current assets must be at least 150% of current liabilities.

4. Options (adjusted for two-for-one stock split in 1958) were granted in 1953, 1956 and 1957 to certain officers and employees of the company and its subsidiaries for the purchase of shares of common stock at prices of \$10.94, \$15.35 and \$15.73 per share (85% of the market price at the respective dates of grant). The total number of shares for which options may be granted to any one employee under the plan shall not exceed 5,000 shares. At December 31, 1958 the number of shares under option, by years granted, were 59,780 (1953), 9,360 (1956) and 25,580 (1957) as compared with 84,178 (1953), 12,280 (1956) and 30,600 (1957) at the preceding year end. The options are exercisable during a nine-year period beginning one year from date of grant. During 1958 options for 24,398 (1953), 2,360 (1956) and 5,020 (1957) shares were exercised and 560 (1956) shares were cancelled. At December 31, 1958 options for 14,520 shares were exercisable. The excess of market value, at the respective dates of grant, over the option price is being charged to income in equal annual installments over a ten year period. The excess of such market value over par value of shares exercised (\$439,090 in 1958) has been added to other capital. At December 31, 1958 and 1957, 29,510 shares and 28,950 shares, respectively, were available for future grants.

5. At December 31, 1958, in determining the lower of cost or market value of raw material inventories, the method of computing market was changed from replacement cost to net realizable value. The effect of this change on the accounts at December 31, 1958 was negligible. Inventories at December 31, 1958 include raw materials and supplies \$12,926,634 and finished products and materials in process \$6,716,372, as compared with \$12,843,533 and \$5,972,629 for such inventories at December 31, 1957.

KELLOGG COMPANY

And Subsidiary Companies

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

	1958	1957
SALES, LESS RETURNS AND ALLOWANCES	\$219,997,523	\$213,237,584
INTEREST AND MISCELLANEOUS INCOME	647,972	618,468
	<u>\$220,645,495</u>	<u>\$213,856,052</u>
COSTS AND EXPENSES:		
COST OF GOODS SOLD	\$128,563,996	\$129,401,274
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	50,305,468	45,594,189
DEPRECIATION	3,682,542	3,478,380
	<u>\$182,552,006</u>	<u>\$178,473,843</u>
EARNINGS BEFORE TAXES ON INCOME	\$ 38,093,489	\$ 35,382,209
ESTIMATED UNITED STATES AND FOREIGN TAXES ON INCOME	19,500,000	18,300,000
EARNINGS FOR THE YEAR	<u>\$ 18,593,489</u>	<u>\$ 17,082,209</u>
CASH DIVIDENDS DECLARED:		
On Common Stock (adjusted for two-for-one stock split in 1958)—\$1.00 a share in 1958 and \$.875 a share in 1957	(8,858,056)	(7,736,570)
On 3½% Cumulative Preferred Stock—\$3.50 a share	(463,887)	(469,450)
PAR VALUE of 4,432,725 shares of Common Stock distributed to shareholders at the rate of one share for each share held	(2,216,363)	—
RETAINED EARNINGS USED IN THE BUSINESS:		
At beginning of year	55,445,524	46,569,335
At end of year	<u>\$ 62,500,707</u>	<u>\$ 55,445,524</u>

See Notes to Financial Statements



PRICE WATERHOUSE & CO.

BATTLE CREEK

February 28, 1959

*To the Board of Directors of
Kellogg Company:*

In our opinion, the accompanying statements present fairly the consolidated financial position of Kellogg Company and its subsidiaries at December 31, 1958 and the results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse & Co.
CERTIFIED PUBLIC ACCOUNTANTS

CONSOLIDATED FINANCIAL HIGHLIGHTS

	1958	1957	1956	1955	1954
NET SALES	\$219,997,523	\$213,237,584	\$201,674,678	\$182,094,188	\$169,451,233
% Increase over previous year	3%	6%	11%	7%	6%
EARNINGS BEFORE TAXES	38,093,489	35,382,209	30,879,734	27,582,205	25,965,028
U.S. AND FOREIGN INCOME TAXES . . .	19,500,000	18,300,000	15,800,000	13,800,000	13,300,000
*Per share of Common Stock .	2.20	2.07	1.79	1.56½	1.51
NET EARNINGS AFTER TAXES	18,593,489	17,082,209	15,079,734	13,782,205	12,665,028
% Increase over previous year	9%	13%	9%	9%	32%
*Per share of Common Stock .	2.04	1.88	1.65	1.50½	1.38
CASH DIVIDENDS:					
On 3½% Preferred Stock .	463,887	469,450	476,408	481,921	514,501
On Common Stock	8,858,056	7,736,570	6,624,051	6,615,436	5,502,500
*Per share of Common Stock .	1.00	.87½	.75	.75	.62½
RETAINED EARNINGS . .	9,271,546	8,876,189	7,979,275	6,684,848	6,648,027
EXPENDITURES ON PLANT	17,111,406	6,863,750	7,335,536	6,417,360	6,261,100
DEPRECIATION AND AMORTIZATION . . .	3,682,542	3,478,380	3,187,354	2,871,609	2,706,982
NET WORKING CAPITAL .	30,662,809	34,498,174	28,900,114	24,270,848	20,725,127
CURRENT RATIO	2.0 to 1	2.2 to 1	2.2 to 1	2.1 to 1	1.9 to 1
COMMON STOCK - HOLDERS' EQUITY .	69,836,425	60,106,419	51,118,709	42,974,062	36,122,560
NUMBER OF COMMON STOCKHOLDERS . .	7,949	7,739	7,294	7,507	6,952

*Adjusted to give effect to 100% stock distribution in December, 1958.



UNITED STATES

BATTLE CREEK, MICHIGAN, PLANT

C. A. STRINGHAM, *Plant Manager*

SAN LEANDRO, CALIFORNIA, PLANT

EARL STINE, *General Manager*

OMAHA, NEBRASKA, PLANT

WM. H. WILLIAMS, JR., *General Manager*

LOCKPORT, ILLINOIS, PLANT

LEONARD BERGSETH, *Plant Manager*

MEMPHIS, TENNESSEE, PLANT

CLIFFORD L. FIALA, *General Manager*

KELLOGG SALES COMPANY, BATTLE CREEK, MICHIGAN

E. M. LEAVER, *President*

C. A. TORNABENE, *General Sales Manager*

L. G. BUCHANAN, *Vice-President*

H. M. LIST, *Vice-President*

R. A. McNICOL, *Vice-President*

VICE-PRESIDENTS IN CHARGE OF SALES REGIONS

O. K. BERRY.....*Eastern Region*

M. L. JOHNSON.....*Western Region*

V. J. WAUTELET.....*Central Region*

V. E. MITCHELL.....*Pacific Region*

C. L. YARBROUGH.....*Southern Region*

DIVISION SALES MANAGERS

C. W. EHLE.....*Atlanta, Ga.*

J. H. WEBSTER.....*Los Angeles, Cal.*

W. G. FITZPATRICK.....*Boston, Mass.*

W. F. PETERSON.....*Memphis, Tenn.*

R. H. WATERFALL.....*Charlotte, N.C.*

H. M. YARNELL.....*Minneapolis, Minn.*

L. W. KWANT.....*Chicago, Ill.*

J. J. KEENAN.....*New York, N.Y.*

J. S. WHOLIHAN.....*Cincinnati, Ohio*

L. F. TOOMEY.....*Omaha, Neb.*

W. F. EHRHARDT.....*Cleveland, Ohio*

A. V. MACLEAN.....*Philadelphia, Pa.*

B. V. ANDERSON.....*Dallas, Texas*

L. F. RANSICK.....*Pittsburgh, Pa.*

C. S. HARPER.....*Denver, Colo.*

C. B. HUDSON.....*St. Louis, Mo.*

J. W. SHARP.....*Detroit, Mich.*

G. U. ALBRIGHT.....*San Francisco, Cal.*

M. B. HUSTED.....*Kansas City, Mo.*

J. T. FARNHAM.....*Seattle, Wash.*

J. L. CHAMBERLAINE.....*Syracuse, N.Y.*

INTERNATIONAL DIVISION

J. E. LONNING, *Sales Manager*

KELLOGG COMPANY OF GREAT BRITAIN, *Limited*—MANCHESTER

HARRY McEVOY, *Managing Director*

L. P. BATSON, *Assistant Managing Director*

J. ALLAN ADAMS, *Assistant Managing Director*

S. W. HARVEY, *Executive Director—Domestic Sales*

KELLOGG COMPANY OF CANADA, *Limited*—LONDON, ONTARIO

G. M. JOHNSTON, *President and General Manager*

GERALD D. ROBINSON, *Vice-President and Sales Manager*

L. E. ROCHESTER, *Vice-President and Advertising Manager*

D. M. HENRY, *Vice-President and Plant Manager*

KELLOGG (AUSTRALIA) PROPRIETARY, *Limited*—SYDNEY

R. J. DAWSON, *Managing Director*

KELLOGG COMPANY OF SOUTH AFRICA (PROPRIETARY), *Limited*

J. F. MALONE, *Managing Director*

KELLOGG DE MEXICO, S. A. DE C. V.

E. J. HARLAN, *President and General Manager*